

Message Text

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PAGE 01 CANBER 05848 121000Z

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 ABF-01 /109 W
----- 097331

R 120738Z AUG 76
FM AMEMBASSY CANBERRA
TO SECSTATE WASHDC 8737
INFO AMCONSUL MELBOURNE
USDEL MTN GENEVA
USMISSION OECD PARIS
AMCONSUL SYDNEY
AMEMBASSY TOKYO
AMEMBASSY WELLINGTON
CINCPAC
AMCONSUL BRISBANE BY POUCH
AMCONSUL PERTH BY POUCH

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CINCPAC FOR POLAD

EO 11652: NA
TAGS: EALR, ECRD, EFIN, AS
SUBJ: AUSTRALIAN BUDGET: FY 1976 PERFORMANCE AND PRELIMINARY
OBSERVATION ON FY77

REF: A. CANBERRA 3714, B. 75 CANBERRA 5815, C. 75 CANBERRA
5630, D. 75 CANBERRA 5505

1. AUSTRALIAN FY 77 BUDGET WILL BE PRESENTED BY THE TREASURER,
LYNCY, AT OPENING OF PARLIAMENT ON AUGUST 17. IN VIEW OF L/NCP
COALITION'S INITIAL ACCEPTANCE AND SUBSEQUENT MODIFICATION
OF ORIGINAL LABOR BUDGET PRESENTED ON AUGUST 19, 1975, IT
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PAGE 02 CANBER 05848 121000Z

MAY BE USEFUL PRELIMINARY TO OUR ONGOING BUDGET REPORTING TO

REVIEW BRIEFLY OUTCOME OF FY 76 BUDGET FROM RECENTLY PUBLISHED FIGURES (ALL DOLLAR FIGURES ARE AUSTRALIAN DOLLARS).

2. OUTLAYS IN FY 76 WERE APPROXIMATELY \$21.86 BILLION, SOME 56 MILLION LESS THAN ESTIMATED LAST AUGUST. OUTLAYS WERE ABOVE ESTIMATES IN NINE CATEGORIES, MOST NOTABLY HEALTH (\$169.6 MILLION), SOCIAL SECURITY AND WELFARE (\$247.2 MILLION), DEFENSE (\$54.6 MILLION) AND TRANSPORT AND COMMUNICATION (\$46.6 MILLION). OUTLAYS WERE BELOW ORIGINAL ESTIMATES IN ELEVEN CATEGORIES, NOTABLY ALLOWANCE FOR WAGE AND SALARY INCREASES (-150.0 MILLION), INDUSTRY ASSISTANCE AND DEVELOPMENT (-120.1 MILLION), PAYMENTS TO STATES NEC AND NATURAL DISASTER RELIEF (-97.3 MILLION), PUBLIC DEBT INTEREST (-43.7 MILLION), FOREIGN AFFAIRS AND OVERSEAS AID (-38.9 MILLION) AND URBAN AND REGIONAL DEVELOPMENT, NEC AND ENVIRONMENT (-37.6 MILLION).

3. RECEIPTS IN FY 76 WERE APPROXIMATELY 18.3 BILLION, SOME 843 MILLION (4.4 PCT) LESS THAN ORIGINALLY ESTIMATED. THE MOST SIGNIFICANT SHORTFALL OVER LAST AUGUST'S ESTIMATES OCCURED IN CATEGORY OF NET PAY-AS-YOU-GO (PAYE) TAX RECEIPTS WHERE COLLECTIONS WERE \$1.66 BILLION LESS THAN ESTIMATED. RECEIPTS FROM EXCISE DUTIES (-76.5 MILLION) AND SALES TAXES (-16.7 MILLION) WERE ALSO BELOW ESTIMATES, WHILE RECEIPTS FROM IMPORT DUTIES (73.6 MILLION) AND (SOMEWHAT SURPRISINGLY) CORPORATE INCOME TAX RECEIPTS (363.2 MILLION) WERE ABOVE EXPECTATIONS.

4. FY 76 BUDGET DEFICIT WAS APPROXIMATELY \$3.6 BILLION, \$787 MILLION (28 PCT) HIGHER THAN ESTIMATED WHEN BUDGET PRESENTED IN AUGUST 1975. NEVERTHELESS, AS TALK IN EARLY 1976 WAS FOR DEFICIT IN NEIGHBORHOOD OF \$4.5 BILLION, FINAL OUTCOME REPRESENTS CONSIDERABLE IMPROVEMENT.

5. DEFICIT WAS FINANCED LARGELY NET PROCEEDS OF SALES OF AUSTRALIAN SAVINGS BONDS AND SPECIAL BONDS (\$1.1 BILLION), NET PROCEEDS OF OTHER LOANS RAISED IN AUSTRALIA (\$1.5 BILLION), BORROWINGS FROM RESERVE BANK (\$1.35 BILLION). ON OTHER HAND, THERE WAS NET DRAWDOWN OF TREASURY NOTES ON ISSUE (\$1.6 BILLION).
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PAGE 03 CANBER 05848 121000Z

6. OF OF MAJOR FEATURES OF LABOR GOVERNMENT'S POLICY WAS AIMED AT GAINING UNION AGREEMENT TO PRINCIPLE OF INDEXING WAGES TO TREND IN QUARTERLY CPI AND DISCOURAGING INCREASES GOING BEYOND THAT LEVEL. THIS EFFORT WAS REASONABLY SUCCESSFUL DESPITE WIDE UNION RESISTANCE. L/NCP COALITION HAS PURSUED POLICY OF "PLATEAU" INDEXATION WHICH HAS BEEN ACCEPTED BY CONCILIATION AND ARBITRATION COMMISSION IN TWO DEC-

SIONS. PARTLY AS RESULT OF THS POLICY AND PARTLY BECAUSE OF SPECTER OF UNEMPLOYMENT, RATE OF GROWTH IN AVERAGE WEEKLY EARNINGS PER EMPLOYED MALE MALE FOR TWELVE MONTH PERIOD THROUGH MARCH 30 WAS 13.3 PCT AS AGAINST 22.3 PCT REGISTERED FOR SAME PERIOD PREVIOUS YEAR. THIS EXPLAINS \$1.66 BILLION DROP OFF IN PAYE RECEIPTS, AS FY 76 ESTIMAES HAD BEEN BASED ON WAGE INCREASE RATIO OF 22.5 PCT.

7. MOST SIGNIFICANT OVERRUNS WERE IN CATEGORIES COVERING UNEMPLOYMENT INSURANCE PAYMENTS AND FINANCING OF GOVERNMENT'S NATIONAL HEALTH SCHEME (MEDIBANK). MOST SIGNIFICANT CUTS INTRODUCED BY FRASER GOVERNMENT WERE IN SUCH EMPLOYMENT SENSITIVE AREAS AS COMMONWEALTH ASSISTANCE TO INDUSTRY AND STATE AID, AS WELL AS SAVINGS EFFECTED WHEN EXPECTED PUBLIC SERVICE WAGE AND SALARY INCREASES DID NOT TAKE PLACE. IN ADDITION, AID LOBBY HAS BEEN EXTREMELY VOCAL OVER CUTS IN THIS AREA AND DEPARTMENT OF FOREIGN AFFAIRS HAS DEEMED IT NECESSARY TO CLOSE SEVERAL OVERSEAS POSTS, AMONG THEM ITS CONSULATE GENERAL IN LOS ANGELES.

8. RATE OF CPI INCREASE ALSO CONTINUED TO EASE DURING FY 76. INFLATION DURING THE TWELVE MONTHS OF FY 75 WAS 16.9 PCT, WHILE RATE WAS 12.3 PCT DURING TWELVE MONTHS ENDING JUNE 30, 1976. ON OTHER HAND, EMPLOYMENT RATE CERTAINLY SHOWED NO SIGNS OF IMPROVEMENT DURING FY 76 AND EVEN DETERIORATED SOMEWHAT. FROM AN UNADJUSTED RATE OF 4.09 PCT IN JUNE 1975, UNEMPLOYMENT ROSE TO 5.7 PCT IN JANUARY 1976 AND THEN EASED OFF SOMEWHAT, BUT REMAINED AT 4.4 PCT AS OF JUNE 30.

9. COMMENT: OPPOSITION LEADERS AND SOME SEGMENTS OF BUSINESS COMMUNITY HAVE BEEN CRITICAL OF GOVERNMENT FOR "UNNECESSARY" CUTS IN COMMONWEALTH SPENDING, ESPECIALLY IN PUBLIC WORKS SECTOR, WHICH IN THEIR VIEW HAS HURT UNEMPLOYMENT AND MAY LIMITED OFFICIAL USE

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PAGE 04 CANBER 05848 121000Z

WELL SHATTER NASCENT INCREASE IN CONSUMER SPENDING. ON OTHER HAND, GOVERNMENT CAN CLAIM THAT ON OVEALL BASIS, ITS CUTS IN EXPENDITURES OVER FY76 ESTIMATES WERE ONLY MODERATE AND THAT ITS CUTS MERELY DESIGNED TO REIN-IN GALLOPING OVERRUNS RESULTING FROM UNREALISTICALLY ESTIMATED LABOR PARTY BUDGET. LYNCH IS EXPECTED TO BRING DOWN BUDGET ON AUGUST 17 THAT WILL CONTAIN RATE OF GROWTH IN GOVERNEMTN SPENDING AND PRHAPS BRING ABOUT APPRECIABLY REDUCTION IN GOVERNMENT SHARE OF GDP.

10. IN PAST MONTHS IT HAS BEEN WIDELY REPORTED THAT GOVERNMENT WAS DETERMINED TO HOLD 1977 DEFICIT TO ROUGHLY \$3 BILLION. IF THIS IS STUBL CASE GOVERNMENT FACES DILEMA. IT IS COMMITTED TO FULL INDEXATION OF PERSONAL INCOME TAXES, AND SOME MINISTERS HAVE RECENTLY HINTED THAT IT MIGHT IN ADDITION

INITIATE CORPORATE TAX INDEXATION AS PROPOSED BY MATTHEWS COMMITTEE, BEGIN PHASED REDUCTION OF COAL EXPORT LEVY AND GRANT TAX CONCESSIONS FOR MINING INDUSTRY. BUT IT IS DIFFICULT TO SEE HOW ANY OF THESE MEASURES CAN BE ADOPTED WITHOUT SUBSTANTIALLY INCREASING DEFICIT. THERE IS LITTLE SCOPE FOR OFFSETTING THEM BY ADDITIONAL SPENDING CUTS WHILE ANY OFFSETTING INCREASES IN INDIRECT TAXES WOULD RAISE CPI WITH RESULTANT FOLLOW-ON EFFECTS ON INDEXED WAGE INCREASES. LARGE SALES TAX INCREASES IN LAST YEAR'S BUDGET CONTRIBUTED HEAVILY TO 5.6 PCT RISE IN CPI FOR DECEMBER QUARTER 1975.) THESE WOULD AGGRAVATE EXPECTED FLOW-ON TO VKGHOF NEW MEDIBANK LEVY WHICH COMES INTO EFFECT OCTOBER 1.

11. GIVEN FOREGOING, GOVERNMENT APPEARS TO FACE TWO CHOICES:
(1) HOLD LINE ON BUDGET DEFICIT IN NEIGHBORHOOD OF \$3 BILLION AND LIMIT NEW TAX MOVES TO TOKEN ACTION; (2) DECIDE IN FACE OF PERSISTENT HIGH UNEMPLOYMENT TO LET DEFICIT RISE REASONABLE AMOUNT ABOVE \$3 BILLION MAKING IN ORDER TO MAKE ADDITIONAL TAX CUTS. WHILE PAST VIEW OF FRASER GOVERNMENT WOULD INCLINE TOWARD (1), IT IS CONCEIVABLE THAT IT MIGHT BOW TO INCREASING PRESSURE FROM VOCAL BUSINESS, LABOR AND BACK-BENCH ELEMENTS AND RELUCTANTLY OPT FOR (2).
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, GOVERNMENT BUDGET, CENTRAL LEGISLATURE, FINANCIAL PROGRAMS, BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CANBER05848
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760310-0487
From: CANBERRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760861/aaaacbjt.tel
Line Count: 192
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 CANBERRA 3714, 75 CANBERRA 5815
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 20 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 APR 2004 by BoyleJA>; APPROVED <14 SEP 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AUSTRALIAN BUDGET: FY 1976 PERFORMANCE AND PRELIMINARY OBSERVATION ON FY77
TAGS: EALR, ECRP, EFIN, AS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006